

AR40



GCOS plant site in northeastern Alberta took on new look as 1966 construction pace was stepped up



First of two gigantic bucketwheel excavators, completed in late 1966 and tested in February, 1967, can chew out 100,000 tons of oil sand daily.

Report of the directors to the shareholders and to the employees:

On-schedule building, employee recruiting, completion of units highlight eventful year

The year 1966 was one of excellent progress on all fronts for the Company's Athabasca oil sands project. At year-end, the project was approximately 83 per cent complete and proceeding toward the full operation deadline of September 30, 1967. The work force at the plant site reached 2,300 persons.

Canadian Bechtel Limited, the general contractor, has continued to advance construction in accordance with the original schedule which calls for start-up and testing



W. HAROLD REA
Chairman of the Board



CLARENCE H. THAYER
President

of plant facilities during the spring and summer of 1967. This will proceed as planned, with various units beginning operation in sequence to meet the September 30 deadline.

Initial Test Operations. In September, GCOS took over the water treating plant, the first unit to reach the test phase. Since then, the Company has also taken over from Bechtel the three boilers and both generators in the steam and power plant.

The 266-mile pipe line to Edmonton was completed and tested during the summer. Starting in August, it was operated in reverse to pump fuel oil from Edmonton to the plant site for use in construction equipment and other purposes. The line is now being used to move 7.5 million cubic feet of natural gas daily to the plant for heating and power generation during the remaining construction and testing operations. Natural gas will be used until coke becomes available in the course of the processing operations.

Preparation of the Mining Area. Also on schedule are preparations for the start of mining. Overburden has been removed from the area to be mined initially, and some 5,000,000 cubic yards have been used to construct a two-mile long tailings dike. Completed in December, this dike will enclose the washed sands during the first three or four years of operations. The Company has taken over and is now operating the overburden digging and handling equipment.

The first of two huge bucketwheel excavators, which arrived in sections from West Germany, was turned over to GCOS in January, 1967. First digging tests were conducted in February to gain experience under winter mining conditions. The second excavator is now being assembled and readied for trials in April.

Extraction and Processing Facilities. The extraction plants, the final units to be constructed, are moving toward completion on schedule. Comprehensive design studies were carried out at the Field Test Unit through November, 1965, and construction began the following month. The primary extraction plant is now 80 per cent complete and the final extraction plant is 90 per cent complete. Test operations are scheduled for April.

All extraction and processing facilities and auxiliary equipment should be mechanically complete by June 1. All units of the plant will be brought on stream in sequence which, as indicated, should put the plant in full operation on schedule.

Personnel Recruiting and Training. Throughout the latter half of 1966, GCOS carried on in Alberta a comprehensive personnel recruit-

Good results shown in hiring of employees

ing programme to select its permanent work force of some 450 employees. In all, more than 10,000 employment applications were received.

By year-end, more than 150 persons had been employed and this total should reach some 400 by April. The remaining personnel required will be added later this year. In addition, Catalytic Construction of Canada Limited will employ about 250 people to handle GCOS's maintenance contract.

The Company has initiated comprehensive training programmes to help employees become fully acquainted with their duties prior to the plant start-up. In one programme, 75 technicians participated in a learn-by-doing session of concentrated instruction in the fundamentals of oil processing at various plants. The technicians performed this exacting phase of the programme in an exemplary manner and are proving themselves to be well-qualified for the various operating positions. The second phase was an intensive three-week programme at the GCOS plant site.

All GCOS employees will be monthly salaried personnel, a pay system felt to be equitable and consistent with present job descriptions. In addition to good pay and opportunities to advance, they and their families will enjoy the advantages of a comprehensive employee benefits programme, a pension plan and life-disability insurance.

It is a matter of considerable satisfaction to note also the manner in which GCOS employees have approached their jobs. They have learned new skills with great enthusiasm and the entire organization looks forward to start-up with an observable spirit of interest and cooperation.

Housing Facilities. GCOS is providing some 200 large trailers for rental in Fort McMurray as temporary quarters for employees and their families while they become acquainted with the community and until permanent homes have been completed. In addition, room and board is also available at the plant site for single employees and those who have not yet brought their families to Fort McMurray.

To provide permanent housing accommodations, GCOS has initiated a sizable programme to develop an attractive planned community. In all, 500 housing units in many styles will be offered to employees at various prices. A total of 50 have now been purchased and occupied and an additional 150 units are nearing completion. Another 200 units of types chosen by individual employees are scheduled for construction during 1967.

The efforts by the Company to make sure that desirable housing is available for GCOS employees have encountered many difficulties and as a result many employees have been temporarily inconvenienced. We appreciate their patience and understanding during the interim period.

Project Financing in 1966. During 1966, the Company, without diluting shareholders' equity, financed the costs incurred for its project by borrowing from three sources: the Canadian short-term money market, Sun Oil Company Limited and United States investors. All the borrowings were either obtained from Sun Oil Company Limited or unconditionally guaranteed by Sun Oil Company.

In view of the tight money market conditions which prevailed throughout most of 1966, GCOS was unable to borrow in the Canadian short-term money market at the \$60,000,000 level originally contemplated. The maximum borrowed at any time during the year was about \$34,000,000, and the average was substantially less. Essentially all the borrowings were repayable on 24 hours' notice. Interest rates



Newly-hired employees underwent intensive training programs to become acquainted with their duties before plant start-up in September, 1967.



Power plant, housing three huge boilers to produce steam and hot water for extraction process, was completed during the latter part of the year.

Project costs financed through borrowing

varied with the market up to 6¾ per cent and, in addition, the Company incurred dealer commissions. All these borrowings were unconditionally guaranteed by Sun Oil Company. The balance sheet shows that these borrowings stood at \$22,300,000 at the end of 1966. There has since been some easing of interest rates in the Canadian money market and it is hoped that this trend will continue.

Because of the Company's difficulty in borrowing sufficient funds in the Canadian short-term money market, it arranged, by agreement dated September 30, 1966, for additional borrowing from Sun Oil Company Limited which will result in its total loans to the Company amounting to \$100,000,000. These loans will become payable on June 30, 1969. Of the \$100,000,000 total, \$78,000,000 had been borrowed by GCOS from Sun Oil Company Limited by the end of 1966 and the remaining \$22,000,000 is to be borrowed during 1967.

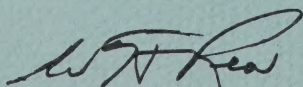
The private placement in the United States of \$50,000,000 (U.S.) principal amount of 5¾ per cent (U.S.) notes due July 1, 1991, provided the Company with \$53,769,000 in Canadian funds. To ensure a successful issue, it was necessary for these notes to be unconditionally guaranteed by Sun Oil Company.

In the light of present estimates, your directors believe that future borrowings in the Canadian short-term market and from Sun Oil Company Limited as noted above will provide funds sufficient to enable the Company to complete its project. Once the project has become operational, and the processing proved out, it is anticipated that substantial amounts of borrowing will be replaced with long-term financing.

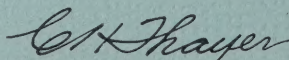
After the start-up of the completed plant, the Company will be in a position to evaluate fully the ultimate capacity of its various units and the overall economics under actual operating conditions. Contrary to published reports, the Company, until that time, will not be in a position to consider the desirability of requesting any increased allowable production that might be considered advisable to help offset the negative effects of inflation and increased costs.

Project Costs. It is a source of considerable satisfaction to report that the total cost of constructing the plant and related facilities will be very close to the December, 1964 estimate. We now expect the final cost to be \$195,000,000, only 2½ per cent more than the 1964 estimate. Interest on borrowed money and other preproduction and start-up expenses will add approximately \$40,000,000 to the plant cost. Thus, the total project should cost approximately \$235,000,000. This is some \$5,000,000 higher than was estimated a year ago, due in part to rising interest rates and housing costs.

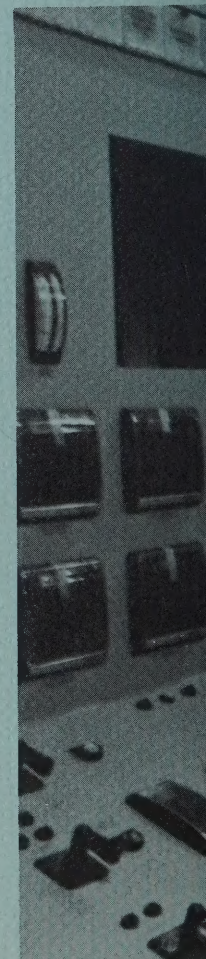
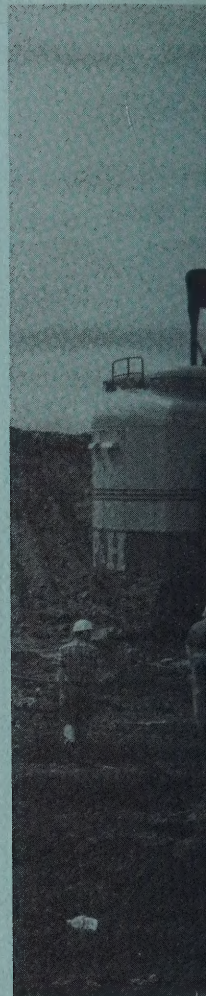
Acknowledgements. In closing this 1966 report, we should like to extend our sincere appreciation to the employees of GCOS, of Sun Oil and of the contracting firms whose skills and perseverance have kept the GCOS project moving forward as planned. Canadian Bechtel, with its subcontractors and suppliers, have worked cooperatively with GCOS against many difficulties to advance this complex project on schedule. We congratulate them for their splendid performance.



W. HAROLD REA
Chairman of the Board



CLARENCE H. THAYER
President





Giant shovel removes overburden in 23-ton bites and dumps it into oversize trucks. Removal of all overburden from first mining area was completed in 1966.

Many modern-styled homes in a planned community were completed during 1966. Houses offer the latest in time-saving conveniences for GCOS families.

Technicians discuss instruments in one of the control rooms from which processing operations will be regulated.

GREAT CANADIAN OIL SANDS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET—DECEMBER 31, 1966

(with comparative figures at December 31, 1965)

ASSETS	1966	1965
Current:		
Cash	\$ 234,683	\$ 129,868
Bank term deposits plus accrued interest	8,647,506	
Sundry accounts receivable	122,632	15,374
Prepaid expenses	160,707	
	<u>9,165,528</u>	<u>145,242</u>
Deposit with Government of Alberta:		
Cash and Government of Canada bonds	20,660	20,660
Plant facilities and other assets (note 1):		
Plant facilities under construction—at cost	160,713,749	65,671,032
Licensing rights and prospecting permits	562,500	562,500
Furniture and equipment—at cost (less accumulated depreciation 1966—\$78,841; 1965—\$33,277)	171,922	84,043
Housing—land and buildings at cost (less accumulated depreciation \$263,365)	3,689,623	
Preproduction and other expenses less investment income	22,242,910	11,390,028
	<u>187,380,704</u>	<u>77,707,603</u>
	<u>\$196,566,892</u>	<u>\$77,873,505</u>
LIABILITIES AND CAPITAL		
Current:		
Bank loans	\$ 700,000	
7% demand notes payable to parent company		\$35,500,000
Short-term notes payable	22,300,000	3,275,000
Accounts payable and accrued charges (including \$79,817 payable to affiliated company)	3,361,512	662,125
	<u>26,361,512</u>	<u>39,437,125</u>
7% notes payable to parent company—due June 30, 1969	78,000,000	
6% unsecured, partially convertible debentures (Alberta issue) maturing May 15, 1975 (Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest) (note 3)	12,469,900	12,469,900
5¾% U.S. \$50,000,000 notes due July 1, 1991 (note 4)	53,769,000	
Capital (note 2):		
Authorized—		
9,000,000 shares without nominal or par value		
Issued—		
5,982,492 shares	25,966,480	25,966,480
	<u>\$196,566,892</u>	<u>\$77,873,505</u>
On behalf of the Board:		
W. H. REA, Director		
D. J. WILKINS, Director		

The accompanying notes should be read in conjunction with the above statement.

**STATEMENT OF PREPRODUCTION
AND OTHER EXPENSES LESS INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 1966**

	Balance December 31,	Expended during	Balance December 31,
	<u>1965</u>	<u>1966</u>	<u>1966</u>
Exploration, development, engineering and economic studies:			
Pre-incorporation, exploration and engineering services	\$ 150,958		\$ 150,958
Exploration	101,651		101,651
Surveys and soil tests	67,913		67,913
Engineers' and consultants' fees	126,755	\$ 44,985	171,740
Lease rental and prospecting permit	14,512	16,018	30,530
Lease exploration expenses	886,796	30,835	917,631
Travel and relocation	218,046	71,678	289,724
Feasibility study for development of oil sands	2,861,317		2,861,317
Field test unit	2,969,393	117,189	3,086,582
Plant supplies		1,028,595	1,028,595
Other	1,258,976	909,274	2,168,250
	<u>8,656,317</u>	<u>2,218,574</u>	<u>10,874,891</u>
Administrative:			
Salaries (note 5)	525,489	596,676	1,122,165
Legal and audit	177,250	48,092	225,342
Rent	53,479	27,283	80,762
Interest—			
Bank loans and short-term notes	288,459	1,702,509	1,990,968
Notes and debentures	1,058,661	5,380,595	6,439,256
Issue expenses—notes and debentures	491,302	186,149	677,451
Depreciation	35,242	309,152	344,394
Other	352,400	748,945	1,101,345
	<u>2,982,282</u>	<u>8,999,401</u>	<u>11,981,683</u>
	11,638,599	11,217,975	22,856,574
Deduct investment income	248,571	365,093	613,664
	<u>\$11,390,028</u>	<u>\$10,852,882</u>	<u>\$22,242,910</u>

The accompanying notes should be read in conjunction with the above statement.

NOTES TO THE FINANCIAL STATEMENTS—DECEMBER 31, 1966

1. The estimated total cost of the construction and the preproduction programme is \$235,000,000, of which approximately \$187,000,000 had been spent to December 31, 1966 and commitments for approximately \$14,000,000 were outstanding at that date.
2. The company's authorized but unissued share capital is reserved to the following extent:
 - (a) 500,000 shares for issue upon the partial conversion of the 6% debentures (Alberta Issue).
 - (b) 7,500 shares at \$3 per share under a contract dated June 29, 1964 granting an option to a director exercisable subject to certain terms and conditions on or before June 29, 1969.
3. Subject to certain terms and conditions, a portion of the 6% debentures (Alberta Issue) may, at any time after May 15, 1968 and before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each \$100 principal amount of the debentures, \$32 thereof may be applied to the purchase of and converted into:
 - (a) Four shares after May 15, 1968 and before May 16, 1970, or
 - (b) Three shares after May 15, 1970 and before May 16, 1973, or
 - (c) Two shares after May 15, 1973 and before May 1, 1975.
4. The terms of the 5¾% notes due July 1, 1991 require annual prepayments of U.S. \$2,000,000 commencing July 1, 1971. The terms permit the company to make optional additional annual prepayments of up to U.S. \$2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.
5. During 1966 the total remuneration of the directors as officers and directors from the company amounted to \$106,514.
6. The company is a party to:
 - (a) An agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sub-lease of Bituminous Sands Lease No. 86 (formerly known as No. 4) in respect of which the company is constructing its plant.
 - (b) Agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of crude oil to be obtained from the project.

AUDITORS' REPORT

To the Shareholders of
Great Canadian Oil Sands Limited:

We have examined the balance sheet of Great Canadian Oil Sands Limited as at December 31, 1966 and the statement of preproduction and other expenses less investment income for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of preproduction and other expenses less investment income present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Canada
January 17, 1967

CLARKSON, GORDON & CO.
Chartered Accountants

GREAT CANADIAN OIL SANDS LIMITED

DIRECTORS

ALEX E. BARRON	THOMAS P. CLARKE
WILLIAM H. DAVIS	DARWIN W. FERGUSON
ARDAGH S. KINGSMILL	ROBERT LAW
JOHN H. McWILLIAMS	M. C. G. MEIGHEN
W. HAROLD REA	JAMES S. ROE
J. GRANT SPRATT	CLARENCE H. THAYER
DONALD J. WILKINS	

OFFICERS

W. HAROLD REA	Chairman of the Board
CLARENCE H. THAYER	President
ALEX E. BARRON	Vice-President
WILLIAM H. DAVIS	Vice-President
ALBERT E. MOSS	Vice-President
DONALD J. WILKINS	Vice-President
ARDAGH S. KINGSMILL	Secretary
JAMES S. ROE	Treasurer
J. R. LAYTON	Comptroller
DONALD M. TREADGOLD	Assistant Secretary
DUDLEY M. McGEER	Assistant Treasurer
MAURICE B. PARMELEE	Assistant Treasurer

AUDITORS

CLARKSON, GORDON & CO. Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY
33 Adelaide Street West, Toronto, Ontario
10182 102nd Street, Edmonton, Alberta
528 8th Avenue, S.W., Calgary, Alberta

SOLICITORS

BLACKWELL, HILTON, TREADGOLD & SPRATT
Toronto, Ontario

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Library, The Royal York Hotel, 100 Front Street West, Toronto, Ontario, at 10:30 a.m. (Toronto time) on Thursday, April 6, 1967.

GREAT CANADIAN OIL SANDS LIMITED

85 Bloor Street East, Toronto, Ontario



"Bridge to Tomorrow's Energy" proved extremely useful during its first full year of operation. Span connects Ft. McMurray with road to the plant site.



**GREAT CANADIAN
OIL SANDS LIMITED**



WITH ITS "MIRACLE ON THE ATHABASCA," GCOS SALUTES THE CANADIAN CENTENNIAL